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Attached are the political updates you requested on the ten EC countries. Per your request, we have kept each country section short. I hope Ambassador Yeutter finds the background on the political situation in each EC country useful for his West European trip. If we can be of any further assistance, don't hesitate to call me. I can be reached on

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Deputy Chief
Western Europe

26 August 1985

E U R A

Office of European Analysis

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Political Updates

on

EC Countries

(Countries are listed by order
of GNP level)

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West Germany

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The governing parties have recently patched over differences on several issues--tax cuts, social legislation, and jobs creation programs. While unemployment remains doggedly high, at over 2 million workers, inflation is low and GNP growth is a moderate 2.5 percent. The press has speculated that the Christian Democrats may replace Kohl with another candidate, but we consider this unlikely. The party has no obvious alternative and any challenger would provoke bitter infighting. [REDACTED]

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France

President Mitterrand's Socialists have enjoyed an absolute majority in the National Assembly since coming to power in May, 1981. Although the government originally followed expansionist economic policies -- which led to accelerated inflation and an increased current account deficit -- it reversed course in mid-1982. Since then, slower growth has reduced inflation and increased unemployment, and with the improved world economic climate the current account has moved to near balance. Despite the improvement in some economic indicators, public hostility to the Socialist government has grown; voters have rejected leftist candidates in municipal and regional elections, and polls show that Mitterrand has become the most unpopular president of the Fifth Republic. [REDACTED]

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Not surprisingly, the Socialists face tough sledding in next year's legislative elections. The opposition parties--Gaullists and Giscardians--are likely to win a majority of seats. This could force an unprecedented constitutional confrontation between a conservative government and Mitterrand, whose term extends to

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Mitterrand and Prime Minister Fabius appear committed to continuing their austere economic policies and will probably attempt -- but we expect will not succeed -- to engineer a coalition of moderate leftists and centrists to form a government after the elections. In addition to the government's other problems, recent press revelations about French intelligence involvement in bombing the Greenpeace ship Rainbow Warrior in New Zealand last month have rocked the government and are likely to result in high-level dismissals and resignations. [redacted]

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Italy

Socialist Prime Minister Craxi's five-party government -- Christian Democrats, Socialists, Republicans, Social Democrats, and Liberals -- passed the two-year mark in mid-August, making it one of Italy's longest lasting postwar governments. Last spring the coalition partners dealt the Communists -- the largest opposition party -- a strong setback in nation-wide municipal elections and defeated a Communist-inspired national referendum to repeal recent government-sponsored reforms of the wage indexation program. [redacted]

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Ironically, however, the government's success against the Communists also threatens to bring to the fore longstanding disagreements and rivalries among the governing partners. The Christian Democrats and Republicans, the two biggest gainers in the municipal elections last spring, have begun to chafe under Craxi's leadership. A number of Christian Democrat leaders are convinced that their party's new vitality at the polls entitles them to renew their claim to the premiership. The Republicans, on the other hand, increasingly are unhappy over the government's handling of the economy and insist that Craxi must work harder at reducing the State deficit and improving the collection of taxes. Some of these issues could come to a head when Parliament reconvenes at the end of September. Discussions of next year's budget will be particularly difficult because of the divisions within the coalition on economic policy, and a shuffling of Cabinet portfolios is likely. [REDACTED]

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The Netherlands

The government of Prime Minister Ruud Lubbers has been in power since November 1982, and it probably will survive until the next general election, due May 1986. The center-right government is composed of Lubbers' Christian Democrats and Liberals, who together command a slim four-seat majority in the 150-member Second Chamber. The Labor Party, traditionally the largest in the Netherlands, controls 47 seats and is projected to win a plurality in the general election next year. [REDACTED]

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The principal problem facing the Lubbers cabinet is whether it should accept cruise missiles. The government has said it will make a decision on 1 November and presently is leaning toward accepting deployment. Nonetheless, a majority of the Dutch are against deployment, and many Christian Democrats fear a "yes" in November probably will give the opposition Labor Party a potent campaign issue. The Lubbers government is also struggling with a huge public debt and a bloated public sector. The government's austerity measures appear to have turned the economy around to some extent, but unemployment, at 17.2 percent, remains a problem. [REDACTED]

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Belgium

Belgium is divided linguistically into Flemish (Dutch)- and French-speaking regions, and this division infuses all issues and permeates all government business. Prime Minister Wilfried Martens, a Fleming, is holding together a shaky coalition of Flemish and Francophone Social Christians and Liberals, controlling 113 seats in the 212-member Lower House. The

agree on major issues; consequently they do not pose a major challenge to the ruling coalition at the moment. Recent opinion polls show the Martens government losing ground, but the chances are better than even that the current coalition will return to power after the general election, scheduled for 13 October.

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The Martens government accepted 16 cruise missiles in March, thus effectively defusing the INF issue in Belgium. The electoral campaign in the runup to the general election is likely to focus on communal and economic issues, particularly on the austerity measures imposed by the government. The economy has recently shown modest growth, but Wallonia (Frenchspeaking) in particular remains depressed. Unemployment, at 13.5 percent, is the main economic issue facing the government.

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Denmark

Denmark has been governed by a Conservative Party-led minority coalition under Prime Minister Poul Schluter since September 1982. The coalition -- which also includes the Liberals, Center Democrats, and Christian People's Party -- holds 79 out of 179 seats. The government has a voting majority on most economic issues due to the support of the centrist Radical Liberal Party (RV). On foreign policy issues, however, the RV is less likely to back the government, thus enabling the opposition Social Democrats (SDP), the nation's largest party, to paralyze government decisionmaking. Although the SDP supports NATO membership and good relations with the US, it also wants a Nordic nuclear free zone and opposes INF deployment and SDI participation.

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The Schluter government's popularity has grown during the past three years, while that of the SDP, Denmark's traditional ruling party, has dropped due to weak leadership and internal infighting. Since 1982 the government has revived the stagnant economy, but has been less successful in reducing Denmark's current account and budget deficits. The coalition government probably will be able to remain in office until the next election in 1987 or early 1988.

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Greece

Andreas Papandreou is the leader of Greece's first socialist government and heads the Panhellenic Socialist Movement (PASOK). He was first elected Prime Minister in October 1981 on a strongly nationalistic platform which included withdrawing Greece from NATO and removing the US bases from Greece. While

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the country's relations with the west have suffered under Papandreou, the foundations have remained intact. He signed a Defense and Economic Cooperation Agreement with the US in 1983 and has not removed Greece from NATO or the EC. In June of this year he was reelected on a considerably watered down platform and his victory was so decisive as to free him of the need for Communist support. [REDACTED]

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During Papandreou's second term, the economy is likely to be his major problem. Inflation is already three times the average of Greece's EC partners, unemployment is rising, and a growing foreign debt may force Papandreou to seek debt rescheduling. We do not expect Papandreou to implement a major austerity program because it would hurt his most important constituents -- farmers and blue-collar workers. He may, however, seek better relations with the US to attract new investment and restore business confidence. [REDACTED]

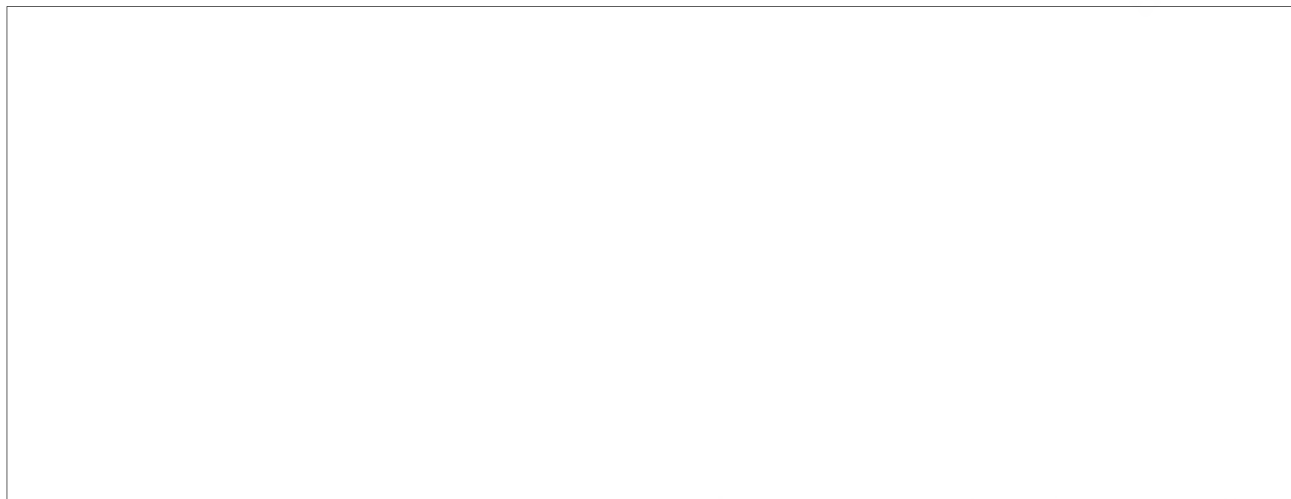
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Ireland

The current centrist government of Prime Minister Garret FitzGerald has been in office since 1982. The coalition is composed of the Prime Minister's Fine Gael Party and the Labor Party, which together control 86 out of 166 seats in Parliament (Fine Gael has 70 and Labor 16). A general election does not have to be held until November 1987, but the current coalition will be hard pressed to last its full term. The latest opinion poll shows the coalition trailing the opposition Fianna Fail party by 14 points. [REDACTED]

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Prime Minister Jacques Santer has lead the center-left coalition since June 1984. His Christian Social Party controls 25 seats in the Chamber of Deputies and joined with the Socialist Party, controlling 21 seats, to form a majority. Although tensions have recently risen between the coalition partners over foreign policy issues, the government will probably last out its full term -- the next general election does not have to be called until June 1989. Socialist leader and Foreign Minister Jacques Poos is more critical of US policies on arms control in the Third World and sometimes irritates his Christian Social partners with his comments. [REDACTED]

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Santer's major foreign policy problem is his inability to obtain a civil air agreement with the United States. The Prime Minister has been pushing hard for a favorable accord which he believes Luxembourg deserves in return for being a loyal ally of the United States. Santer is also concerned about Soviet attempts to use Luxembourg as a transshipment point for restricted Western technology. Luxembourg officials are particularly worried about growing US-EC trade tensions and probably will press other EC countries to compromise on trade issues -- Luxembourg holds the Presidency of the EC until December. [REDACTED]

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